

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4329

May 2, 2002

**R E S O L U T I O N**

**(RES. W-4329), CALIFORNIA UTILITIES SERVICE, INC., (CUS).  
ORDER AUTHORIZING AN INCREASE IN RATES  
PRODUCING ADDITIONAL ANNUAL REVENUES OF \$109,320  
OR 18.7% FOR TEST YEAR 2002.**

---

**SUMMARY**

By Draft Advice Letter accepted on August 2, 2001, CUS seeks an increase in rates for sewer service to recover increased operating expenses and provide an adequate rate of return on its capital investment. This resolution grants a general rate increase in gross annual revenues of \$109,320 or 18.7% for Test Year 2002. This increase will provide an 11.81% rate of return on rate base in the test year.

**BACKGROUND**

CUS requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$139,228 or 23.7% in 2002. CUS's request shows 2002 gross revenue of \$586,741 at present rates increasing to \$725,969 at proposed rates to produce a rate of return on rate base of 12.5%. CUS serves approximately 1,111 flat rate customers in an area midway between the cities of Salinas and Monterey in the vicinity of and along State Highway 68, Monterey County.

The last general rate increase became effective on October 5, 1995, pursuant to Decision (D.) 95-10-001, which authorized a rate increase of \$61,239 or 15.2% for test year 1995 and a rate of return of 13.0%. Current rates became effective on

January 19, 2002 pursuant to Resolution W-4317, which authorized an offset increase of \$22,628 or 4.0% for purchased power costs and local franchise taxes.

## **DISCUSSION**

The Water Division (Division) made an independent analysis of CUS's summary of earnings and issued its report in March 2002. Appendix A shows CUS's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between CUS's and the Division's estimates in operating revenues, and expenses.

CUS was informed of the Division's differing views of operating revenues and expenses and disagreed with the Division's estimates of purchased power, management salaries, transportation expenses and income taxes. In a March 13, 2002 meeting, representatives of the Division and utility met to discuss each of the estimates in dispute with the following results:

### *Purchased Power*

CUS provided recent up-dated information that demonstrated that Division's estimate of the current composite PG&E rate was understated. Division agreed and changed its estimate accordingly. The revised estimate, to which both parties agree, is reflected in the adopted rates column of Appendix A.

### *Management Salaries*

CUS presented its reasons justifying its higher estimate of management salaries. Division was not persuaded to change its estimate, indicating that its estimate was based on a reasonable management salary for a utility of CUS's size, geographical location and operating characteristics. CUS eventually accepted Division's estimate, which is reflected in the adopted rates column of Appendix A.

### *Transportation Expenses*

The Division based its estimate on a caterpillar tractor being used in the spray fields for only two-thirds of a year. CUS presented additional information to indicate that the caterpillar tractor is used year-round in the spray fields. The Division reviewed the additional information and was persuaded to revise its

estimate, which is reflected in the adopted rates column of Appendix A.

### *Income Taxes*

Division discovered that it had made an inadvertent error in calculating its estimate of Federal Income Tax. The error was corrected and the revised Federal Income Tax is reflected in the adopted rates column of Appendix A.

CUS requested a rate of return of 12.5% for test year 2002. The Commission's Audit & Compliance (A&C) Branch recommends a rate of return of 11.81% for CUS. Division found that the return on investment calculation produced a revenue requirement of \$694,202 at the rate of return of 11.81%.

CUS's current rate structure consists of one schedule: Schedule No. 1, General Flat Rate Service. The Division recommends that the Flat Rate Service be increased by the system average increase.

At the Division's recommended rates shown in Appendix B, the bill for a typical monthly flat rate residential customer would increase from \$43.87 to \$52.07, or 18.7%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

### **NOTICE AND PUBLIC MEETING**

A notice of the proposed rate increase was mailed to each customer on August 30, 2001. The Division received eighteen letters protesting the rate increase. CUS also received copies of all eighteen letters and responded satisfactorily with copies of each response to the Division. The Consumer Affairs Branch received two complaints in 2001 and no complaints in 2000. Both of these complaints were regarding billing disputes.

A public meeting was held at 7pm on Thursday, September 29, 2001 at the Salinas Community Center in Salinas, California. Two customers attended the meeting and thought the notice of the meeting was deceiving because the notice stated there had been no general increase since the last GRC, while there had been CPI increases. The Commission representative explained the different types of increases a utility can receive, and also the general method the Division uses to examine the utility's request. The Utility's representative explained why the utility needed the increase.

### **COMPLIANCE**

There are no outstanding Commission orders requiring system improvements. Several calls were made to the California Regional Water Control Board but the calls were not returned.

The utility has been filing annual reports as required. CUS needs to update Rules 5, 7, 8, 10, 11, 16 and 19, and Forms 2 and 3.

The Division recommends that the Commission authorize a rate increase of \$109,320 or 18.7%. The new rate will increase estimated annual revenues from \$584,882 to \$694,202 at recommended rates as shown in Appendix A.

### **COMMENTS**

On March 29, 2002, the Commission mailed the draft resolution of the Water Division in this matter to parties in accordance with Public Utilities Code Section 311(g)(1) and Rule 77.7 of the Rules of Practice and Procedure. No comments were received.

### **FINDINGS**

1. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. CUS should be ordered to update Rules 5, 7, 8, 10, 11, 16 and 19, and Forms 2 and 3.
5. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.

### **THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public utilities Code Section 454 for California Utilities Service, Inc. to file an advice letter incorporating the summary of earnings and the revised schedule attached to this resolution as Appendices A

and B respectively, and concurrently cancel its presently effective rate schedule: Schedule No. 1, General Flat Rate Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of its filing.

2. California Utilities Service, Inc. is ordered to update Rules 5, 7, 8, 10, 11, 16 and 19, and Forms 2 and 3.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 2, 2002; the following Commissioners voting favorably thereon:

---

WESLEY M. FRANKLIN  
Executive Director

LORETTA M. LYNCH  
President  
HENRY M. DUQUE  
CARL W. WOOD  
GEOFFREY F. BROWN  
MICHAEL R. PEEVEY  
Commissioners

Appendix A  
California Utilities Service, Inc.  
Summary of Earnings  
Test Year 2002

	Estimated at Present Rates				Estimated at Proposed Rates				Branch Recommended Rates
	Staff	Utility	Utility Exceeds Amount	%	Staff	Utility	Utility Exceeds Amount	%	
Operating revenues									
Total revenues	584,882	586,741	1,859	0.3%	725,927	725,969	42	0.0%	694,202
Oper. & Maint. Exp:									
Power	61,920	63,076	1,156	2%	61,920	63,076	1,156	2%	61,920
Other volume related exp.	28,928	29,796	868	3%	28,928	29,796	868	3%	28,928
Employee labor	119,093	119,093	-	0%	119,093	119,093	-	0%	119,093
Materials	11,689	11,689	-	0%	11,689	11,689	-	0%	11,689
Contract work	28,933	28,933	-	0%	28,933	28,933	-	0%	28,933
Transportation expenses	64,590	64,590	-	0%	64,590	64,590	-	0%	64,590
Other plant maintenance	11,320	11,320	-	0%	11,320	11,320	-	0%	11,320
Office salaries	51,068	51,068	-	0%	51,068	51,068	-	0%	51,068
Management salaries	26,500	43,650	17,150	65%	26,500	43,650	17,150	65%	26,500
Employee pens. & benefits	53,978	58,580	4,602	9%	53,978	58,580	4,602	9%	53,978
Uncollectibles expense	710	710	-	0%	993	993	-	0%	993
Office services & rentals	2,668	2,668	-	0%	2,668	2,668	-	0%	2,668
Office supplies and expenses	18,015	18,015	-	0%	18,015	18,015	-	0%	18,015
Professional services	6,000	6,000	-	0%	6,000	6,000	-	0%	6,000
Insurance	11,152	11,152	-	0%	11,152	11,152	-	0%	11,152
Regulatory comm. expense	900	900	-	0%	900	900	-	0%	900
General expenses	4,385	4,385	-	0%	4,385	4,385	-	0%	4,385
Total operating expenses	501,849	525,625	23,776	5%	502,132	525,908	23,776	5%	502,132
Depreciation	35,299	35,299	-	0%	35,299	35,299	-	0%	35,299
Payroll tax	14,048	12,792	(1,256)	-9%	14,048	12,792	(1,256)	-9%	14,048
Property tax	14,739	14,739	-	0%	14,739	14,739	-	0%	14,739
Franchise tax	11,698	11,735	37	0%	14,519	14,519	-	0%	13,884
State tax	800	800	-	0%	11,389	9,400	(1,989)	-17%	8,641
Federal income tax	-	-	-	-	15,482	10,050	(5,432)	-35%	7,938
Total deductions	578,433	600,990	22,557	4%	607,608	622,707	15,099	2%	596,681
Net Revenue	6,449	(14,249)	(20,698)	-	118,319	103,262	(15,057)	-13%	97,521
Rate Base:									
Average plant	3,446,499	3,446,499	-	0%	3,446,499	3,446,499	-	0%	3,446,499
Average accum. dep.	(1,380,576)	(1,380,576)	-	0%	(1,380,576)	(1,380,576)	-	0%	(1,380,576)
Net plant	2,065,923	2,065,923	-	0%	2,065,923	2,065,923	-	0%	2,065,923
Less: Advances	-	-	-	-	-	-	-	-	-
Contributions	1,186,709	1,186,709	-	0%	1,186,709	1,186,709	-	0%	1,186,709
Deferred Taxes	53,120	53,120	-	0%	53,120	53,120	-	0%	53,120
Rate Base	826,094	826,094	-	0%	826,094	826,094	-	0%	826,094
Rate of Return	0.78%	-1.72%			14.32%	12.50%			11.81%

**APPENDIX B**  
**CALIFORNIA UTILITIES SERVICE, INC.**

**Schedule No. 1**  
**GENERAL FLAT RATE SERVICE**

**APPLICABILITY**

Applicable to all sewer service.

**TERRITORY**

An area midway between the cities of Salinas and Monterey. In the vicinity of and along State Highway 68, Monterey County.

**RATES**

	<u>Per Month</u>
All service per single dwellings and/or Business units, except as follows .....	\$ 52.07 (I)
Toro Park School .....	729.00
Corral de Tierra Country Club .....	416.60 (I)

**SPECIAL CONDITIONS**

1. Bills will be rendered in advance of the period for which service will be provided.
2. The above rates for individual-named customers are based upon an equivalent number of single-family residential service connections. Customers so classified may appeal the classification to the Commission under the provisions of Rule No. 10, Disputed Bills.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
4. A late charge will be imposed per Schedule No. LC.
5. In accordance with Section 2714 of the Public Utilities Code and PUC Resolution No. 3976, if a tenant in a rental unit leaves owing the utility, service to subsequent tenants in that unit will at the Utilities option, be furnished on the account of the landlord or property owner.

**APPENDIX C**  
**CALIFORNIA UTILITIES SERVICE, INC.**

**COMPARISON OF RATES**  
**Test Year 2002**

FLAT RATE SERVICE

	<u>Per Service Connection Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Percent</u>
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
		<u>TY 99</u>	<u>(Decrease)</u>
All service per single dwellings and/or			
Business units, except as follows .....	\$ 43.87	\$ 52.07	18.7%
Toro Park School .....	614.35	729.00	18.7%
Corral de Tierra Country Club .....	351.38	416.60	18.6%



**APPENDIX D**

**Page 1**

**CALIFORNIA UTILITIES SERVICE, INC.  
ADOPTED QUANTITIES  
Test Year 2002**

Offset Items

**1. Purchased Power**

Pacific Gas and Electric Company	
Effective Date January 1, 2002	
Schedule A-1 Small General Service	
ENERGY CHARGE (per kWh per month)	
Summer	\$0.14870
Winter	\$0.10193
CUSTOMER CHARGE, per month	
Single phase service (per meter)	\$ 8.10
Polyphase service (per meter)	\$12.00
Schedule A-10 Medium General Demand-Meter Service	
Effective Date January 1, 2002	
ENERGY CHARGE (per kWh per month)	
Summer	\$0.08915
Winter	\$0.07279
DEMAND CHARGE (per kW of maximum demand per month)	
Summer	\$6.70
Winter	\$1.65
CUSTOMER CHARGE (per meter per month)	\$75.00
Total Cost	\$61,920
Total kWh	420,602
Average Unit Cost \$/kWh	\$ 0.147

**2. Payroll**

Employee Labor	\$119,093
Office Salaries	51,068
Management Salaries	26,500
Payroll Taxes	14,048

**3. Property Taxes** 14,739

**4. Franchise Taxes** 13,884

Service Connections

Flat Rate 1,111  
=====

**APPENDIX D**

**Page 2**

**CALIFORNIA UTILITIES SERVICE, INC.  
ADOPTED TAX CALCULATIONS  
TEST YEAR 2002**

1. Operating Revenues	\$ 694,202
2. Expenses	502,132
3. Depreciation	35,299
4. Payroll Taxes	14,048
5. Property Taxes	14,739
6. Franchise Taxes	13,884
7. Interest Expense	891
8. Taxable Income before dep. on taxable CIAC	113,209
9. Depreciation on taxable CIAC (State)	15,464
10. State Taxable Income	97,745
11. State Tax (8.84%)	8,641
12. Taxable Income before dep. on taxable CIAC (Fed)	104,568
13. Depreciation on taxable CIAC (Federal)	52,816
14. Federal Taxable Income	51,752
15. Federal Income Tax	7,938
	=====